

CITY OF STORM LAKE

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2012

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CITY OF STORM LAKE

OFFICIALS

(Before December 2011)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jon Kruse	Mayor	December, 2013
David Walker	Mayor Pro Tem	December, 2011
Bruce Engelman	Council Member	December, 2011
Sara Huddleston	Council Member	December, 2011
Dan Anderson	Council Member	December, 2013
Mike Porsch	Council Member	December, 2013
James Patrick	City Manager	Indefinite
Justin Yarosevich	Assistant City Manager/City Clerk	Indefinite
Paul Havens	City Attorney	Indefinite

(After December 2011)

Jon Kruse	Mayor	December, 2013
David Walker	Mayor Pro Tem	December, 2015
Dan Anderson	Council Member	December, 2013
Mike Porsch	Council Member	December, 2013
Bruce Engelman	Council Member	December, 2015
Sara Huddleston	Council Member	December, 2015
James Patrick	City Manager	Indefinite
Justin Yarosevich	Assistant City Manager/City Clerk	Indefinite
Paul Havens	City Attorney	Indefinite

# HUNZELMAN, PUTZIER & CO., PLC

CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.  
JASON K. RAVELING  
TAMMY M. CARLSON, C.P.A.  
RICHARD R. MOORE, C.P.A. (RETIRED)  
WESLEY E. STILLE, C.P.A. (RETIRED)  
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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Storm Lake  
Storm Lake, Iowa 50588

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Storm Lake, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Storm Lake as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2013, on our consideration of City of Storm Lake's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, and the Schedule of Funding Progress for the Retiree Health Plan on pages 6 through 12 and 46 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Storm Lake's basic financial statements. The financial statements for the nine years ended June 30, 2011 (which are not presented herein) were audited by other auditors, in accordance with the standards referred to in the second paragraph of this report, who expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hummelman, Putzier & Co., PLC*

May 16, 2013

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Storm Lake provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2012 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental activities increased 28.9%, or approximately \$2,760,000, from fiscal year 2011 to fiscal year 2012. Charges for service increased approximately \$771,000; operating grants, contributions, and restricted interest increased approximately \$188,000; capital grants, contributions and restricted interest increased approximately \$1,415,000, and property and other city tax revenues increased approximately \$674,000.
- Program expenses of the City's governmental activities were up 6.5%, or approximately \$565,000, more in fiscal year 2012 than in fiscal year 2011. Public safety expenses increased approximately \$88,000; culture and recreation expenses decreased approximately \$78,000; public works expenses increased approximately \$70,000; interest on long-term debt increased approximately \$143,000.
- The City of Storm Lake's net assets increased 8.4% or approximately \$3,320,000, from June 30, 2011, to June 30, 2012. Of this amount, the net assets of the governmental activities increased approximately \$2,370,000 and the net assets of the business type activities increased approximately \$950,000.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of City as a whole and present an overall view of the City's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which the City acts solely as an agent or custodian for the benefit of those outside of City government (Agency Funds).
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.
- Supplementary Information provides detailed information about the nonmajor governmental funds and the individual Agency Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statements*

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Activities report two kinds of activities:

- Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, and capital projects. Property and other taxes and state and federal grants finance most of these activities.
- Business-type activities include the waterworks, sanitary sewer system, storm water system, King's Pointe, and the City's sanitation department. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has three categories of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Tax Increment Financing, Local Option Sales Tax, and Employee Benefits Tax Levy, 3) the Debt Service Fund, and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances.

2) Proprietary funds account for the City's Enterprise Funds and Internal Service Funds. The funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The Enterprise Funds include the Water, Wastewater and Sanitation Funds, each considered to be a major fund of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES** - (Continued)

The financial statements required for proprietary funds include a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Fund Net Assets, and a Statement of Cash Flows.

3) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the City's own programs. These fiduciary funds include a Pension Trust Fund, and various Agency Funds

The financial statement required for fiduciary funds is a Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental and business type activities.

<b>Net Assets of Governmental Activities</b>						
	Net Assets at Year-End					
	Governmental Activities		Business-Type Activities		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 14,519,388	\$ 9,086,260	\$ 9,633,864	\$ 7,232,015	\$ 24,153,252	\$ 16,318,275
Capital assets	<u>26,980,028</u>	<u>23,317,274</u>	<u>33,663,868</u>	<u>34,139,666</u>	<u>60,643,896</u>	<u>57,456,940</u>
Total assets	<u>41,499,416</u>	<u>32,403,534</u>	<u>43,297,732</u>	<u>41,371,681</u>	<u>84,797,148</u>	<u>73,775,215</u>
Long-term liabilities	26,557,088	20,487,200	8,504,700	7,433,000	35,061,788	27,920,200
Other liabilities	<u>5,434,823</u>	<u>4,784,222</u>	<u>1,298,147</u>	<u>1,392,265</u>	<u>6,732,970</u>	<u>6,176,487</u>
Total liabilities	<u>31,991,911</u>	<u>25,271,422</u>	<u>9,802,847</u>	<u>8,825,265</u>	<u>41,794,758</u>	<u>34,096,687</u>
Net assets						
Invested in capital assets, net of related debt	811,847	2,857,274	25,837,065	26,706,666	26,648,912	29,563,940
Restricted	6,943,632	2,313,534	1,050,593	590,137	7,994,225	2,903,671
Unrestricted	<u>1,752,026</u>	<u>1,961,304</u>	<u>6,607,227</u>	<u>5,249,613</u>	<u>8,359,253</u>	<u>7,210,917</u>
Total net assets	<u>\$ 9,507,505</u>	<u>\$ 7,132,112</u>	<u>\$ 33,494,885</u>	<u>\$ 32,546,416</u>	<u>\$ 43,002,390</u>	<u>\$ 39,678,528</u>

Net assets of the City's governmental activities increased approximately \$2,375,000, or 33% over fiscal year 2011. Net assets of business type activities increased approximately \$948,000, or 3%, over fiscal year 2011. The largest portion of the City's net assets is invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net assets represent resources subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements.



**GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**

**Changes in Net Assets of Governmental Activities**

	Changes in Net Assets for the Year Ended June 30,					
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for service	\$ 2,424,370	\$ 1,653,813	\$ 10,104,384	\$ 9,498,144	\$ 12,528,754	\$ 11,151,957
Operating grants, contributions, and restricted interest	1,496,585	1,308,396	-	-	1,496,585	1,308,396
Capital grants, contributions, and restricted interest	2,435,443	1,020,214	254,292	248,574	2,689,735	1,268,788
General revenues:						
Property tax levied for:						
General purposes	3,170,299	2,927,641	-	-	3,170,299	2,927,641
Debt service	314,837	300,997	-	-	314,837	300,997
Tax increment financing	759,106	510,733	-	-	759,106	510,733
Other taxes	1,665,872	1,496,467	-	-	1,665,872	1,496,467
Unrestricted investment earnings	24,351	23,515	33,279	45,208	57,630	68,723
Miscellaneous	6,677	295,821	-	203,955	6,677	499,776
Transfers	(658,707)	295,935	537,172	(472,300)	(121,535)	(176,365)
Total revenues	<u>11,638,833</u>	<u>9,833,532</u>	<u>10,929,127</u>	<u>9,523,581</u>	<u>22,567,960</u>	<u>19,357,113</u>
Program expenses:						
Public safety	2,457,239	2,369,419	-	-	2,457,239	2,369,419
Public works	1,894,652	1,824,359	-	-	1,894,652	1,824,359
Health and social services	4,276	5,464	-	-	4,276	5,464
Culture and recreation	2,023,637	2,101,998	-	-	2,023,637	2,101,998
Community and economic development	712,887	463,340	-	-	712,887	463,340
General government	962,430	411,478	-	-	962,430	411,478
Capital projects	-	457,154	-	-	-	457,154
Interest on long-term debt	1,208,319	1,064,946	-	-	1,208,319	1,064,946
Water	-	-	2,557,393	2,788,816	2,557,393	2,788,816
Wastewater	-	-	2,002,971	2,351,073	2,002,971	2,351,073
Landfill	-	-	510,413	437,938	510,413	437,938
Storm water	-	-	310,193	230,220	310,193	230,220
King's Pointe	-	-	4,599,688	4,448,515	4,599,688	4,448,515
Total expenses	<u>9,263,440</u>	<u>8,698,158</u>	<u>9,980,658</u>	<u>10,256,562</u>	<u>19,244,098</u>	<u>18,954,720</u>
Increase (decrease) in net assets	2,375,393	1,135,374	948,469	(732,981)	3,323,862	402,393
Net assets beginning of year	<u>7,132,112</u>	<u>5,996,738</u>	<u>32,546,416</u>	<u>33,279,397</u>	<u>39,678,528</u>	<u>39,276,135</u>
Net assets end of year	<u>\$ 9,507,505</u>	<u>\$ 7,132,112</u>	<u>\$ 33,494,885</u>	<u>\$ 32,546,416</u>	<u>\$ 43,002,390</u>	<u>\$ 39,678,528</u>

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**

The City's net assets of governmental activities increased approximately \$2,375,000 during the year. Revenues for governmental activities increased approximately \$2,760,000 over the prior year.

The cost of all governmental activities this year was approximately \$9.3 million compared to approximately \$8.7 million last year. However, as shown in the Statement of Activities on page 14, the amount taxpayers ultimately financed for these activities was approximately only \$2.9 million because some of the cost was paid by those directly benefited from the programs (\$2.4 million) or by other governments and organizations which subsidized certain programs with grants and contributions (\$3.9 million).

The City's net assets of business type activities increased approximately \$948,000 during the year. Revenues for business type activities increased approximately \$1,406,000 over the prior year while total expenses were approximately \$276,000 lower than the prior fiscal year.

## **INDIVIDUAL MAJOR FUND ANALYSIS**

### **Governmental Fund Highlights**

As the City of Storm Lake completed the year, its governmental funds reported a combined fund balance of \$6,544,894, an increase of \$3,068,992 from the prior year ending fund balance total of \$3,475,902. The following are the major reasons for the changes in fund balances of the major governmental funds from the prior year.

- From FY'11 to FY'12, the General Fund showed a decline in fund balance of \$43,501. Expenditures increased \$213,390, and revenues increased \$232,574.
- The Special Revenue, Road Use Tax Fund accounts for the road use tax allocation from the State of Iowa to be used for road construction and maintenance. This fund ended fiscal year 2012 with a \$488,958 balance compared to the prior year ending balance of \$382,090.
- The Special Revenue, Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for capital improvements, equipment, and community programs and services. This fund ended fiscal year 2012 with a \$763,189 balance compared to the prior year ending fund balance of \$430,457. Local option sales tax revenue increased \$225,589 from fiscal year 2011.
- The Special Revenue, Special Levy Fund is used to account for property tax levied to finance the payment of employee benefits. This fund ended fiscal year 2012 with an \$86,776 fund balance compared to the prior year ending fund balance of \$100,886.
- The Special Revenue, Tax Increment Financing Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used for transfers to other funds to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal development projects. This fund ended fiscal year 2012 with a \$(330,448) balance compared to the prior year ending fund balance of \$17,469. The deficit fund balance is a result of unpaid taxes in the TIF area and capital expenses in the new TIF area.
- The Debt Service Fund ended fiscal year 2012 with a \$3,878,491 balance compared to the prior year ending fund balance of \$67,956. The increase is mainly from proceeds from general obligation refunding notes issued during the year.
- The Capital Projects Fund ended fiscal year 2012 with a \$1,025,999 balance compared to the prior year ending fund balance of \$634,987. The increase was primarily a result of bonds proceeds received during the year for costs previously incurred.

### **Proprietary Fund Highlights**

- The Enterprise, Water Fund, which accounts for the operation and maintenance of the City's water system, ended 2012 with a net asset balance of \$8,109,310 compared to the prior year ending net asset balance of \$6,047,778.
- The Enterprise, Wastewater Fund, which accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system, ended 2012 with a net asset balance of \$4,751,941 compared to the prior year ending net asset balance of \$4,991,973.
- The Enterprise, King's Pointe Fund, which accounts for the operation and maintenance of King's Pointe Resort, ended 2012 with a net asset balance of \$19,284,087 compared to the prior year ending net asset balance of \$20,219,107.
- The other major enterprise funds ended 2012 with a net asset balance of \$1,349,547 compared to the prior year ending net asset balance of \$1,287,558.
- The Internal Service Funds are used by management to charge the cost of employee health benefits, technology purchases, and fleet purchases to the individual funds. The net assets of the Internal Service Fund decreased \$728 to \$993,825.

### **BUDGETARY HIGHLIGHTS**

During FY'12, The City of Storm Lake amended its budget one time. The amendment, approved May 21, 2012, increased expenses for the public safety, public works, culture and recreation, community and economic development, general government, debt service, capital projects and business-type activities.

Even with this amendment, the City exceeded the budgeted amount in the debt service function for the year ended June 30, 2012.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

The City's capital assets include land, buildings and improvements, equipment, streets, sewer systems, lighting systems, traffic signals, and other infrastructure. Capital assets for governmental activities totaled approximately \$26,980,000 (net of accumulated depreciation) at June 30, 2012. Capital assets for business-type activities totaled approximately \$33,664,000 (net of accumulated depreciation) at June 30, 2012. See Note 4 to the financial statements for more information about the City's capital assets.

The major capital outlays for governmental activities during the year included Vestal, West 6<sup>th</sup> Street Extension, Bargloff and McKenna Road projects as well as the Airport RPZ project, Tennis Court Reconstruction, and the Discovery Center.

For business-type activities, major capital outlays included McKenna Addition Water & Sewer, Bargloff Water & Sewer, Hwy. 110 Water & Sewer Main Extension, East Lakeshore Drive Water Main Extension, and Redwood Drive Sewer Main.

Construction in progress at June 30, 2012 for governmental activities consists primarily of the Warning Sirens (FEMA) project and the Airport RPZ project.

Construction in progress at June 30, 2012 for business-type activities consists of Highway 110 Sewer Extension and the FEMA Sewer Mitigation Project.

## **Long Term Debt**

At June 30, 2012, the City had \$26,230,000 in total long-term debt outstanding for governmental activities. Total long-term debt outstanding for business-type activities was \$7,912,000 at June 30, 2012.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. At June 30, 2012, the city was at 76% of its constitutional debt limit of approximately \$21,100,000 with a computed outstanding balance of approximately \$16,000,000. While the total general obligation debt outstanding exceeds this amount, certain general obligation bonds include annual appropriation terms. The annual appropriation amount is the principal and interest due in the next year, and only this amount is required to be included in the computation of the statutory debt limit.

Additional information about the City's long-term debt is presented in Note 6 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

Storm Lake is continuing to see growth in both the commercial and industrial areas. This is evidenced by new businesses coming to the community as well as existing business expanding. This growth has made housing an even larger focus for the City. Working with housing developers and looking at tax credit housing projects will be a priority to ensure that our growing workforce and population are able to work and live in Storm Lake.

Revenues in both Local Option Sales Tax and Hotel/Motel Tax continue to increase. These revenues are both indicators of the healthy economy that Storm Lake has.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of The City of Storm Lake's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk, 620 Erie Street, Storm Lake, Iowa, 50588.

CITY OF STORM LAKE  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

Exhibit A

	Governmental Activities	Business Type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 3,413,907	\$ 6,734,546	\$ 10,148,453
U.S. Treasury Securities on deposit with escrow agent	3,757,917	-	3,757,917
Receivables:			
Property tax:			
Delinquent	77,608	-	77,608
Succeeding year	3,602,641	-	3,602,641
Tax increment financing:			
Delinquent	242,451	-	242,451
Succeeding year	699,721	-	699,721
Accounts	97,394	1,390,472	1,487,866
Accrued interest	2,052	1,477	3,529
Due from other governments	2,196,081	91,903	2,287,984
Inventories and prepaids	201,661	200,488	402,149
Restricted assets:			
Cash and cash equivalents	-	1,140,991	1,140,991
Pledges receivable	72,241	-	72,241
Unamortized loan fees	-	73,987	73,987
Unamortized bond issue costs	155,714	-	155,714
Capital assets (net of accumulated depreciation)	26,980,028	33,663,868	60,643,896
Total assets	<u>\$ 41,499,416</u>	<u>\$ 43,297,732</u>	<u>\$ 84,797,148</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 935,651	\$ 675,864	\$ 1,611,515
Accrued interest payable	94,716	19,983	114,699
Accrued wages and benefits	91,279	122,562	213,841
Accrued expenses	10,815	394,542	405,357
Payable from restricted assets	-	85,196	85,196
Deferred revenue:			
Succeeding year property tax	3,602,641	-	3,602,641
Succeeding year tax increment financing	699,721	-	699,721
Long-term liabilities:			
Portion due or payable within one year	1,554,657	1,035,700	3,626,057
Portion due or payable after one year	25,002,431	7,469,000	32,471,431
Total liabilities	<u>31,991,911</u>	<u>9,802,847</u>	<u>41,794,758</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	811,847	25,837,065	26,648,912
Restricted for:			
Roads	569,204	-	569,204
Debt service	3,884,958	1,050,593	4,935,551
Capital improvements	1,773,532	-	1,773,532
Other purposes	715,938	-	715,938
Unrestricted	1,752,026	6,607,227	8,359,253
Total net assets	<u>\$ 9,507,505</u>	<u>\$ 33,494,885</u>	<u>\$ 43,002,390</u>

See Notes to Financial Statements.

CITY OF STORM LAKE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012

Exhibit B

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	\$ 2,457,239	\$ 542,853	\$ 85,493	\$ -	\$ (1,828,893)	\$ -	\$ (1,828,893)
Public works	1,894,652	534,986	1,170,221	2,056,785	1,867,340	-	1,867,340
Health and social services	4,276	-	-	-	(4,276)	-	(4,276)
Culture and recreation	2,023,637	832,401	62,074	245,632	(883,530)	-	(883,530)
Community and economic development	712,887	11,951	165,912	126,500	(408,524)	-	(408,524)
General government	962,430	502,179	-	6,526	(453,725)	-	(453,725)
Interest on long-term debt	1,208,319	-	12,885	-	(1,195,434)	-	(1,195,434)
Total governmental activities	9,263,440	2,424,370	1,496,585	2,435,443	(2,907,042)	-	(2,907,042)
Business-type activities:							
Water	2,557,393	3,208,706	-	7,210	-	658,523	658,523
Sewer	2,002,971	2,215,079	-	247,082	-	459,190	459,190
King's Pointe	4,599,688	3,797,955	-	-	-	(801,733)	(801,733)
Sanitation	510,413	552,575	-	-	-	42,162	42,162
Storm Water	310,193	330,069	-	-	-	19,876	19,876
Total business-type activities	9,980,658	10,104,384	-	254,292	-	378,018	378,018
Total	\$ 19,244,098	\$ 12,528,754	\$ 1,496,585	\$ 2,689,735	(2,907,042)	378,018	(2,529,024)
General Revenues and Transfers:							
Property and other city tax levied for:							
General purposes					3,170,299	-	3,170,299
Debt service					314,837	-	314,837
Tax increment financing					759,106	-	759,106
Hotel motel tax					342,080	-	342,080
Local option sales tax					1,323,792	-	1,323,792
Unrestricted interest on investments					24,351	33,279	57,630
Miscellaneous					6,677	-	6,677
Transfers					(658,707)	537,172	(121,535)
Total general receipts and transfers					5,282,435	570,451	5,852,886
Change in net assets					2,375,393	948,469	3,323,862
Net assets beginning of year					7,132,112	32,546,416	39,678,528
Net assets end of year					\$ 9,507,505	\$ 33,494,885	\$ 43,002,390

See Notes to Financial Statements.

CITY OF STORM LAKE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

Exhibit C

ASSETS	Special Revenue								
	General	Road Use Tax	Local Option Sales Tax	Special Levy	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
Cash and cash equivalents	\$ 1,217,396	\$ 434,858	\$ 571,587	\$ 27,573	\$ (330,348)	\$ 120,574	\$ (208,286)	\$ 539,617	\$ 2,372,971
U.S. Treasury Securities on deposit with escrow agent	-	-	-	-	-	3,757,917	-	-	3,757,917
Receivables									
Property tax:									
Delinquent	46,668	-	-	22,075	-	7,288	-	1,577	77,608
Succeeding year	2,174,072	-	-	1,045,162	-	315,680	-	67,726	3,602,640
Tax increment financing:									
Delinquent	-	-	-	-	242,451	-	-	-	242,451
Succeeding year	-	-	-	-	699,721	-	-	-	699,721
Accounts	63,585	-	-	-	-	-	29,271	-	92,856
Accrued interest	1,358	-	-	-	-	-	690	4	2,052
Pledges	-	-	-	-	-	-	72,241	-	72,241
Due from other governments	68,812	74,156	191,602	-	-	-	1,792,349	-	2,126,919
Due from other funds	69,161	-	-	-	-	-	-	-	69,161
Inventories	59,538	1,962	-	-	-	-	-	-	61,500
Prepaid expenses	6,849	-	-	63,332	-	-	-	59,540	129,721
Total assets	\$ 3,707,439	\$ 510,976	\$ 763,189	\$ 1,158,142	\$ 611,824	\$ 4,201,459	\$ 1,686,265	\$ 668,464	\$ 13,307,758
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	\$ 173,599	\$ 15,903	\$ -	\$ 4,129	\$ -	\$ -	\$ 588,025	\$ -	\$ 781,656
Salaries and benefits payable	85,165	6,115	-	-	-	-	-	-	91,280
Accrued liabilities	10,815	-	-	-	-	-	-	-	10,815
Due to other funds	91,903	-	-	-	-	-	-	-	91,903
Deferred revenue:									
Succeeding year property tax	2,174,072	-	-	1,045,162	-	315,680	-	67,726	3,602,640
Succeeding year tax increment financing	-	-	-	-	699,721	-	-	-	699,721
Other	46,668	-	-	22,075	242,451	7,288	72,241	1,577	392,300
Total liabilities	2,582,222	22,018	-	1,071,366	942,172	322,968	660,266	69,303	5,670,315
Fund balances:									
Nonspendable:									
Prepaid expenditures	6,849	-	-	63,332	-	-	-	59,540	129,721
Other	59,538	1,962	-	-	-	-	-	2,714	64,214
Restricted:									
Streets	-	486,996	-	-	-	-	-	-	486,996
Capital improvements	-	-	763,189	-	-	-	-	-	763,189
Debt service	-	-	-	-	-	3,878,491	-	-	3,878,491
Other purposes	6,350	-	-	23,444	-	-	-	536,907	566,701
Unassigned	1,052,480	-	-	-	(330,348)	-	1,025,999	-	1,748,131
Total fund balances	1,125,217	488,958	763,189	86,776	(330,348)	3,878,491	1,025,999	599,161	7,637,443
Total liabilities and fund balances	\$ 3,707,439	\$ 510,976	\$ 763,189	\$ 1,158,142	\$ 611,824	\$ 4,201,459	\$ 1,686,265	\$ 668,464	\$ 13,307,758

See Notes to Financial Statements.

CITY OF STORM LAKE  
RECONCILIATION OF THE BALANCE SHEET -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2012

Exhibit D

Total governmental fund balances	\$ 7,637,443
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Certain receivables are not available financial resources and, therefore, are deferred revenue in the governmental funds.	392,300
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$40,015,780 and the accumulated depreciation/amortization is \$13,035,752.	26,980,028
Bond issue costs are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	155,714
The Internal Service Fund is used by management to charge the costs of employee health benefits and fleet purchases to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities in the Statement of Net Assets.	993,825
Long-term liabilities, including bonds payable, accrued interest payable, compensated absences payable, and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(26,651,805)</u>
Net assets of governmental activities	<u>\$ 9,507,505</u>

See Notes to Financial Statements.



CITY OF STORM LAKE  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

Exhibit E

	Special Revenue								Total
	General	Road Use Tax	Local Option Sales Tax	Special Levy	Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	
Revenues:									
Property tax	\$ 1,959,137	\$ -	\$ -	\$ 926,663	\$ -	\$ 307,551	\$ -	\$ 67,234	\$ 3,260,585
Tax increment financing	-	-	-	-	516,655	-	-	-	516,655
Other city tax	430,896	-	1,323,792	41,978	-	13,156	-	3,000	1,812,822
Intergovernmental	62,609	1,079,578	-	-	-	-	2,102,530	5,155	3,249,872
Licenses and permits	205,753	11,990	-	-	-	-	-	-	217,743
Charges for services	1,148,637	2,964	-	-	-	-	-	55,311	1,206,912
Use of money and property	127,485	-	1,892	-	-	12,885	8,530	1,677	152,469
Miscellaneous	605,413	-	-	-	-	-	359,408	50,082	1,014,903
Total receipts	<u>4,539,930</u>	<u>1,094,532</u>	<u>1,325,684</u>	<u>968,641</u>	<u>516,655</u>	<u>333,592</u>	<u>2,470,468</u>	<u>182,459</u>	<u>11,431,961</u>
Expenditures:									
Operating:									
Public safety	1,844,172	-	-	418,175	-	-	-	93,928	2,356,275
Public works	426,868	717,312	-	139,941	-	-	-	-	1,284,121
Health and social services	4,276	-	-	-	-	-	-	-	4,276
Culture and recreation	1,258,012	-	-	156,095	-	-	-	52,587	1,466,694
Community and economic development	523,430	-	-	25,601	23,456	-	-	-	572,487
General government	255,384	-	-	36,255	-	-	-	110,122	401,761
Debt service	-	-	-	-	-	1,942,588	-	-	1,942,588
Capital Projects	-	-	-	-	-	-	5,044,341	-	5,044,341
Total disbursements	<u>4,312,142</u>	<u>717,312</u>	<u>-</u>	<u>776,067</u>	<u>23,456</u>	<u>1,942,588</u>	<u>5,044,341</u>	<u>256,637</u>	<u>13,072,543</u>
Excess (deficiency) of revenues over expenditures	<u>227,788</u>	<u>377,220</u>	<u>1,325,684</u>	<u>192,574</u>	<u>493,199</u>	<u>(1,608,996)</u>	<u>(2,573,873)</u>	<u>(74,178)</u>	<u>(1,640,582)</u>
Other financing sources (uses):									
General obligation bonds issued	-	-	-	-	70,681	1,318,929	1,310,390	-	2,700,000
Refunding bonds issued	-	-	-	-	-	3,825,000	-	-	3,825,000
Discount on general obligation bonds issued	-	-	-	-	-	(64,171)	-	-	(64,171)
Operating transfers in	184,103	-	14,996	100,000	34,057	1,611,933	1,654,495	-	3,599,584
Operating transfers out	(455,392)	(270,352)	(1,007,948)	(306,684)	(945,754)	(1,272,160)	-	-	(4,258,290)
Total other financing sources (uses)	<u>(271,289)</u>	<u>(270,352)</u>	<u>(992,952)</u>	<u>(206,684)</u>	<u>(841,016)</u>	<u>5,419,531</u>	<u>2,964,885</u>	<u>-</u>	<u>5,802,123</u>
Net change in fund balances	(43,501)	106,868	332,732	(14,110)	(347,817)	3,810,535	391,012	(74,178)	4,161,541
Fund balances, beginning of year	<u>1,168,718</u>	<u>382,090</u>	<u>430,457</u>	<u>100,886</u>	<u>17,469</u>	<u>67,956</u>	<u>634,987</u>	<u>673,339</u>	<u>3,475,902</u>
Fund balances, end of year	<u>\$ 1,125,217</u>	<u>\$ 488,958</u>	<u>\$ 763,189</u>	<u>\$ 86,776</u>	<u>\$ (330,348)</u>	<u>\$ 3,878,491</u>	<u>\$ 1,025,999</u>	<u>\$ 599,161</u>	<u>\$ 7,637,443</u>

See Notes to Financial Statements.

CITY OF STORM LAKE  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012

Exhibit F

Net change in fund balances - Total governmental funds		\$ 4,161,541
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation/amortization expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation expense in the current year as follows:		
Expenditures for capital assets	\$ 5,032,542	
Depreciation/amortization expense	<u>(1,369,788)</u>	3,662,754
Because some revenues will not be collected for several months after the City's year end, they are not considered available revenues and are deferred in the governmental funds as follows:		
Property tax	320,059	
Other	<u>(27,759)</u>	292,300
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments as follows:		
Repaid general obligation bonds	755,000	
Issued general obligation bonds	(6,525,000)	
Discount on general obligation bonds issued	64,171	
Amortization of deferred charges	<u>(9,640)</u>	(5,715,469)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Compensated absences	(682)	
Other post employment benefits	(13,231)	
Interest on long-term debt	<u>(11,092)</u>	(25,005)
The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.		<u>(728)</u>
Change in net assets of governmental activities		<u>\$ 2,375,393</u>

See Notes to Financial Statements.

CITY OF STORM LAKE  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2012

Exhibit G

Enterprise Funds

	Water	Wastewater	King's Pointe	Sanitation	Storm Water	Total	Internal Service Funds
<u>ASSETS</u>							
Cash and cash equivalents	\$ 3,302,644	\$ 1,503,271	\$ 1,164,283	\$ 200,362	\$ 563,986	\$ 6,734,546	\$ 1,040,934
Receivables:							
Customer accounts and unbilled usage	552,113	369,696	303,967	98,109	66,587	1,390,472	4,537
Accrued interest	398	550	529	-	-	1,477	-
Due from other governments	-	-	-	-	-	-	-
Due from other funds	79,000	-	91,903	-	-	170,903	-
Inventories	-	-	42,099	-	-	42,099	10,440
Prepaid expenses	49,815	49,815	57,081	839	839	158,389	-
Restricted cash and cash equivalents	160,888	975,128	-	-	4,975	1,140,991	-
Capital assets	9,891,004	4,237,995	18,525,025	-	1,009,845	33,663,869	-
Other assets	48,503	17,434	-	-	8,050	73,987	-
Total assets	<u>\$ 14,084,365</u>	<u>\$ 7,153,889</u>	<u>\$ 20,184,887</u>	<u>\$ 299,310</u>	<u>\$ 1,654,282</u>	<u>\$ 43,376,733</u>	<u>\$ 1,055,911</u>
<u>LIABILITIES AND NET ASSETS</u>							
Liabilities:							
Accounts Payable	\$ 100,817	\$ 241,911	\$ 254,314	\$ 48	\$ 9,615	\$ 606,705	\$ 62,086
Salaries and benefits payable	9,130	7,995	103,783	384	1,269	122,561	-
Accrued liabilities	-	-	394,542	-	-	394,542	-
Customer deposits payable from restricted assets	85,196	-	-	-	-	85,196	-
Due to other funds	-	-	148,161	-	-	148,161	-
Compensated absences	48,591	36,840	-	1,241	6,028	92,700	-
Interest payable	13,321	5,202	-	-	1,460	19,983	-
Note payable - bank	500,000	-	-	-	-	500,000	-
Revenue notes payable - short-term	359,000	53,000	-	-	31,000	443,000	-
Revenue notes payable - long-term	4,859,000	2,057,000	-	-	553,000	7,469,000	-
Total liabilities	<u>5,975,055</u>	<u>2,401,948</u>	<u>900,800</u>	<u>1,673</u>	<u>602,372</u>	<u>9,881,848</u>	<u>62,086</u>
Net assets:							
Invested in capital assets - net of related debt	4,758,200	2,127,995	18,525,025	-	425,845	25,837,065	-
Restricted for revenue bond retirement	75,692	969,926	-	-	4,975	1,050,593	-
Unrestricted	<u>3,275,418</u>	<u>1,654,020</u>	<u>759,062</u>	<u>297,637</u>	<u>621,090</u>	<u>6,607,227</u>	<u>993,825</u>
Total net assets	<u>8,109,310</u>	<u>4,751,941</u>	<u>19,284,087</u>	<u>297,637</u>	<u>1,051,910</u>	<u>33,494,885</u>	<u>993,825</u>
Total liabilities and net assets	<u>\$ 14,084,365</u>	<u>\$ 7,153,889</u>	<u>\$ 20,184,887</u>	<u>\$ 299,310</u>	<u>\$ 1,654,282</u>	<u>\$ 43,376,733</u>	<u>\$ 1,055,911</u>

See Notes to Financial Statements.

CITY OF STORM LAKE  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2012

Exhibit H

	Enterprise					Internal
	Water	Wastewater	King's Pointe	Sanitation	Storm Water	Service Funds
Operating revenues:						
Charges for services	\$ 3,131,683	\$ 2,208,624	\$ 3,771,805	\$ 551,915	\$ 325,507	\$ 9,989,534
Miscellaneous	84,237	6,454	26,150	660	4,562	122,063
Total operating revenues	<u>3,215,920</u>	<u>2,215,078</u>	<u>3,797,955</u>	<u>552,575</u>	<u>330,069</u>	<u>10,111,597</u>
Operating expenses:						
Business type activities:						
Cost of sales and services	1,672,571	1,487,193	3,805,304	510,413	224,691	7,700,172
Depreciation and amortization	710,671	476,866	794,384	-	65,592	2,047,513
Total operating expenses	<u>2,383,242</u>	<u>1,964,059</u>	<u>4,599,688</u>	<u>510,413</u>	<u>290,283</u>	<u>9,747,685</u>
Operating income (loss)	<u>832,678</u>	<u>251,019</u>	<u>(801,733)</u>	<u>42,162</u>	<u>39,786</u>	<u>363,912</u>
Non-operating revenues (expenses)						
Intergovernmental	-	247,082	-	-	-	247,082
Interest income	17,707	7,981	4,639	483	2,468	33,278
Interest expense	(174,152)	(38,912)	-	-	(19,910)	(232,974)
Net non-operating revenues (expenses)	<u>(156,445)</u>	<u>216,151</u>	<u>4,639</u>	<u>483</u>	<u>(17,442)</u>	<u>47,386</u>
Excess (deficiency) of revenues over expenditures	<u>676,233</u>	<u>467,170</u>	<u>(797,094)</u>	<u>42,645</u>	<u>22,344</u>	<u>411,298</u>
Other financing sources (uses)						
Operating transfers in	1,940,927	-	774,590	-	-	2,715,517
Operating transfers out	(555,628)	(707,202)	(912,516)	(3,000)	-	(2,178,346)
Total other financing sources (uses)	<u>1,385,299</u>	<u>(707,202)</u>	<u>(137,926)</u>	<u>(3,000)</u>	<u>-</u>	<u>537,171</u>
Change in net assets	<u>2,061,532</u>	<u>(240,032)</u>	<u>(935,020)</u>	<u>39,645</u>	<u>22,344</u>	<u>948,469</u>
Net assets beginning of year	<u>6,047,778</u>	<u>4,991,973</u>	<u>20,219,107</u>	<u>257,992</u>	<u>1,029,566</u>	<u>32,546,416</u>
Net assets end of year	<u>\$ 8,109,310</u>	<u>\$ 4,751,941</u>	<u>\$ 19,284,087</u>	<u>\$ 297,637</u>	<u>\$1,051,910</u>	<u>\$ 33,494,885</u>

See Notes to Financial Statements.

CITY OF STORM LAKE  
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

Exhibit I

	Enterprise Funds						
	<u>Water</u>	<u>Wastewater</u>	<u>King's Pointe</u>	<u>Sanitation</u>	<u>Storm Water</u>	<u>Total</u>	<u>Internal Service Funds</u>
Cash flows from operating activities:							
Receipts from customers	\$ 3,141,216	\$ 2,141,283	\$ 4,317,744	\$ 523,465	\$ 306,182	\$ 10,429,890	\$ 1,061,283
Cash paid for personal services	(395,899)	(326,820)	(1,030,044)	(23,166)	(91,943)	(1,867,872)	-
Cash paid to suppliers	(1,506,416)	(1,117,977)	(3,161,268)	(486,412)	(116,676)	(6,388,749)	(986,590)
Net cash provided by operating activities	<u>1,238,901</u>	<u>696,486</u>	<u>126,432</u>	<u>13,887</u>	<u>97,563</u>	<u>2,173,269</u>	<u>74,693</u>
Cash flows from noncapital financing activities:							
Advances from other funds	1,940,927	-	853,590	-	-	2,794,517	-
Advances to other funds	(634,628)	(707,202)	(912,516)	(3,000)	-	(2,257,346)	(100,000)
Net cash provided (used) by noncapital financing activities	<u>1,306,299</u>	<u>(707,202)</u>	<u>(58,926)</u>	<u>(3,000)</u>	<u>-</u>	<u>537,171</u>	<u>(100,000)</u>
Cash flows from capital and related financing activities:							
Acquisition of capital assets	(864,655)	(418,027)	(88,578)	-	(194,999)	(1,566,259)	-
Proceeds from capital grants	-	428,845	-	-	-	428,845	-
Proceeds from short-term notes payable - bank borrowings	500,000	-	-	-	-	500,000	-
Proceeds from revenue bonds	196,440	668,767	-	-	-	865,207	-
Repayment of revenue bonds	(343,000)	(27,000)	-	-	(31,000)	(401,000)	-
Interest payments	(174,233)	(36,603)	-	-	(19,988)	(230,824)	-
Net cash provided (used) by capital and related financing activities	<u>(685,448)</u>	<u>615,982</u>	<u>(88,578)</u>	<u>-</u>	<u>(245,987)</u>	<u>(404,031)</u>	<u>-</u>
Cash flows from investing activities:							
Interest on investments	<u>18,219</u>	<u>7,284</u>	<u>4,110</u>	<u>483</u>	<u>2,468</u>	<u>32,564</u>	<u>3,325</u>
Net cash provided by investing activities	<u>18,219</u>	<u>7,284</u>	<u>4,110</u>	<u>483</u>	<u>2,468</u>	<u>32,564</u>	<u>3,325</u>
Net increase (decrease) in cash and cash equivalents	1,877,971	612,550	(16,962)	11,370	(145,956)	2,338,973	(21,982)
Cash and cash equivalents, beginning of year	<u>1,585,561</u>	<u>1,865,849</u>	<u>1,181,245</u>	<u>188,992</u>	<u>714,917</u>	<u>5,536,564</u>	<u>1,062,916</u>
Cash and cash equivalents, end of year	<u>\$ 3,463,532</u>	<u>\$ 2,478,399</u>	<u>\$ 1,164,283</u>	<u>\$ 200,362</u>	<u>\$ 568,961</u>	<u>\$ 7,875,537</u>	<u>\$ 1,040,934</u>

See Notes to Financial Statements.

CITY OF STORM LAKE  
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

Exhibit I  
(continued)

	Enterprise Funds						
	<u>Water</u>	<u>Wastewater</u>	<u>King's Pointe</u>	<u>Sanitation</u>	<u>Storm Water</u>	<u>Total</u>	<u>Internal Service Funds</u>
Reconciliation of operating income (loss) to net cash provided by operating activities							
Operating income (loss)	\$ 832,678	\$ 251,019	\$ (801,733)	\$ 42,162	\$ 39,786	\$ 363,912	\$ 95,947
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:							
Depreciation	706,735	475,923	794,384	-	65,017	2,042,059	-
Amortization	3,935	944	-	-	575	5,454	-
(Increase) decrease in accounts receivable and unbilled usage	(54,913)	(73,796)	3,946	(29,109)	(23,887)	(177,759)	4,537
Decrease in due from other funds	-	-	119,973	-	-	119,973	-
(Increase) decrease in inventories	28,121	-	(8,529)	-	-	19,592	1,209
(Increase) decrease in prepaid expenses	(1,570)	(3,741)	22,473	(839)	(839)	15,484	-
Increase (decrease) in accounts payable	(158,016)	42,302	24,434	48	9,614	(81,618)	-
Increase in salaries and benefits payable	1,130	995	14,265	384	1,269	18,043	-
Increase (decrease) in due to other funds	(103,000)	-	(1,413)	-	-	(104,413)	-
Decrease in incurred and unpaid claims	(19,790)	-	-	-	-	(19,790)	(27,000)
Decrease in accrued expenses	-	-	(41,368)	-	-	(41,368)	-
Increase in compensated absences	3,591	2,840	-	1,241	6,028	13,700	-
Net cash provided by operating activities	<u>\$ 1,238,901</u>	<u>\$ 696,486</u>	<u>\$ 126,432</u>	<u>\$ 13,887</u>	<u>\$ 97,563</u>	<u>\$ 2,173,269</u>	<u>\$ 74,693</u>
Reconciliation of cash and cash equivalents to specific assets included on the statement of net assets - proprietary funds							
Cash and cash equivalents	\$ 3,302,644	\$ 1,503,271	\$ 1,164,283	\$ 200,362	\$ 563,986	\$ 6,734,546	\$ 1,040,934
Restricted cash and cash equivalents	160,888	975,128	-	-	4,975	1,140,991	-
	<u>\$ 3,463,532</u>	<u>\$ 2,478,399</u>	<u>\$ 1,164,283</u>	<u>\$ 200,362</u>	<u>\$ 568,961</u>	<u>\$ 7,875,537</u>	<u>\$ 1,040,934</u>

See Notes to Financial Statements.

CITY OF STORM LAKE  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2012

Exhibit J

	<u>Pension Trust</u>	<u>Agency</u>		
		<u>Lake</u>	<u>Gingerbread</u>	
	<u>Police/Fire</u>	<u>Improvements</u>	<u>House</u>	<u>Drainage</u>
		<u>Commission</u>		
Assets:				
Cash and cash equivalents	\$ -	\$ 1,742,615	\$ 14,363	\$ (144,312)
Interest receivable	-	592	-	-
Due from other governments	-	83,353	-	144,312
Prepaid expenses	-	17,397	-	-
Total assets	<u>\$ -</u>	<u>\$ 1,843,957</u>	<u>\$ 14,363</u>	<u>\$ -</u>
Liabilities:				
Accounts payable	\$ -	\$ 19,406	\$ 14,363	\$ -
Due to other governments	-	1,824,551	-	-
Total liabilities	<u>-</u>	<u>1,843,957</u>	<u>14,363</u>	<u>-</u>
Net Assets				
Reserved for pensions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and net assets	<u>\$ -</u>	<u>\$ 1,843,957</u>	<u>\$ 14,363</u>	<u>\$ -</u>

See Notes to Financial Statements.

CITY OF STORM LAKE  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012

Exhibit K

	<u>Pension Trust</u>
	<u>Police/Fire</u>
Additions:	
Transfers in	\$ 221,534
Deductions:	
Public safety	<u>221,534</u>
Change in net assets	-
Net assets beginning of year	<u>-</u>
Net assets end of year	<u>\$ -</u>

See Notes to Financial Statements.



CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

1. Summary of Significant Accounting Policies

The City of Storm Lake is a political subdivision of the State of Iowa located in Buena Vista County. It was first incorporated in 1873 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, storm water, and landfill utilities for its citizens and owns and operates a hotel and indoor water park.

The financial statements of the City of Storm Lake have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City has no component units which meet the Governmental Accounting Standard Board criteria.

Jointly Governed Organizations -The City participates in a jointly governed organization agreement with the Buena Vista County Solid Waste Commission, a political subdivision created under Chapter 28E of the Code of Iowa. The purpose of the Commission includes providing economic disposal of solid waste produced or generated within Buena Vista County and member cities.

The City's ongoing financial interest in the jointly governed organization consists of the operation of the landfill and other solid waste collection and disposal operations. The City collects landfill fees as a part of its regular utility billings. The Commission then bills the City quarterly for its operations. This fee is computed for each municipality on a per capita basis. For the year ended June 30, 2012, this fee totaled \$453,340.

Copies of the Commission's financial statements are available from the City Clerk at the City of Alta, or from the State Auditor's Office.

The City participates in a jointly governed organization agreement with the Lake Improvements Commission, a political subdivision created under Chapter 28E of the Code of Iowa. The financial information for the Commission is reflected as an agency fund in these financial statements. The purpose of the Commission is to finance and effect a continued dredging of Storm Lake.

Copies of the Commission's financial statements are available from the City Clerk at City of Storm Lake, 620 Erie Street, Storm Lake, IA 50588 or from the State Auditor's Office.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

1. Summary of Significant Accounting Policies - (Continued)

A. Reporting Entity - (Continued)

The City also participates in several jointly governed organizations for which the City is not financially accountable, or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following Boards or Commissions: Buena Vista County Assessor's Conference Board, Buena Vista County Emergency Management Commission, Buena Vista County Communications Commission, Joint E911 Service Board, Region V Drug Task Force, Storm Lake United, Buena Vista County Foundation, Community Education, and Storm Lake Cemetery.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in the following categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and, (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

1. Summary of Significant Accounting Policies - (Continued)

B. Basis of Presentation - (Continued)

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues from general and emergency levies and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for capital improvements, equipment, and community programs and services.

The Special Levy Fund is used to account for property tax levied to finance the payment of employee benefits.

The Tax Increment Financing Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used for transfers to other funds to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal development projects.

The Debt Service Fund is used to account for property tax and other revenue to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Wastewater Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The King's Pointe Fund is used to account for the operation of a hotel facility and indoor water park.

The Sanitation Fund is used to account for the operation and maintenance of the City's solid waste collection system.

The Storm Water Fund is used to account for the operation and maintenance of the City's storm water system.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

1. Summary of Significant Accounting Policies - (Continued)

B. Basis of Presentation - (Continued)

Additionally, the City also reports the following funds:

Proprietary Fund - The Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

Fiduciary Fund – Account for assets held by the City in a trustee or agency capacity for the benefit of others. Fiduciary funds account for assets held by the City under the terms of a formal trust agreement and which cannot be used to support City activities.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenue (shared revenue, grants, and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned, and then unassigned fund balances.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenue. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

1. Summary of Significant Accounting Policies - (Continued)

C. Measurement Focus and Basis of Accounting – (Continued)

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments, and Cash Equivalents - The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable, Including Tax Increment Financing – Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2012 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

1. Summary of Significant Accounting Policies - (Continued)

D. Assets, Liabilities, and Fund Equity- (Continued)

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2011.

Customer Accounts and Unbilled Usage – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Due from and Due to Other Funds – During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2012, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Prepays – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid in both the government-wide and fund financial statements on the consumption method.

Inventories – Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets – Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Interest Capitalized - Construction period interest for business-type activities is capitalized. For projects paid with taxable bonds, interest is capitalized at the amount of cash paid at the effective interest rate to the earlier of the date the asset is placed in service or year end. No amounts were capitalized in 2012.

Capital Assets – Capital assets, which include property, equipment and vehicles, intangibles and infrastructure assets acquired after July 1, 1980 (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the City) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets and in the Proprietary Funds Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of \$5,000 and estimated useful lives in excess of two years.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Assets, Liabilities, and Fund Equity- (Continued)

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u> <u>(In Years)</u>
Buildings and improvements	20 – 40 years
Equipment and vehicles	5 – 20 years
Infrastructure	20 years

Under current accounting standards, the City is not required to, and the City has chosen not to, retroactively capitalize infrastructure assets. However, infrastructure projects since 2004 are properly included in the government-wide financial statements. Because the infrastructure assets constructed prior to 2004 have not been capitalized, the debt related to infrastructure assets causes the reporting of capital assets net of related debt in the statement of net assets to be lower than it would be if the infrastructure were capitalized.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

Compensated Absences – City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2012. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-Term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Assets, Liabilities, and Fund Equity- (Continued)

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the debt service function.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

G. Subsequent Events

The City has evaluated subsequent events through the date of the auditors' report, which is the date the financial statements were available to be issued.

2. Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.



CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

2. Cash and Pooled Investments - (Continued)

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

3. Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2012 is as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 69,161	\$ 91,903
Proprietary Funds:		
Water	79,000	-
King's Pointe	91,903	148,161
	<u>\$ 240,064</u>	<u>\$ 240,064</u>

These balances result from interfund advances made to finance projects or enterprise operations. Repayments will be made as time deposits mature or enterprise operations become profitable.

4. Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 1,430,953	\$1,662,163	\$ -	\$ 3,093,116
Construction in progress	571,803	3,068,378	1,047,709	2,592,472
Total capital assets not being depreciated	<u>2,002,756</u>	<u>4,730,541</u>	<u>1,047,709</u>	<u>5,685,588</u>
Capital assets being depreciated:				
Buildings	5,966,392	-	-	5,966,392
Improvements other than buildings	15,521,994	-	-	15,521,994
Equipment and vehicles	4,733,720	302,001	-	5,035,721
Infrastructure, road network	6,758,376	1,047,709	-	7,806,085
Total capital assets being depreciated	<u>32,980,482</u>	<u>1,349,710</u>	<u>-</u>	<u>34,330,192</u>
Less accumulated depreciation for:				
Buildings	2,843,077	178,654	-	3,021,731
Improvements other than buildings	4,254,296	507,181	-	4,761,477
Equipment and vehicles	3,142,198	317,331	-	3,459,529
Infrastructure, road network	1,426,393	366,622	-	1,793,015
Total accumulated depreciation	<u>11,665,964</u>	<u>1,369,788</u>	<u>-</u>	<u>13,035,752</u>
Total capital assets being depreciated, net	<u>21,314,518</u>	<u>(20,078)</u>	<u>-</u>	<u>21,294,440</u>
Governmental activities capital assets, net	<u>\$23,317,274</u>	<u>\$4,710,463</u>	<u>\$1,047,709</u>	<u>\$26,980,028</u>

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

4. Capital Assets- (Continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 389,051	\$ 12,000	\$ -	\$ 401,051
Construction in progress	1,376,527	1,212,713	1,109,381	1,479,859
Total capital assets not being depreciated	<u>1,765,578</u>	<u>1,224,713</u>	<u>1,109,381</u>	<u>1,880,910</u>
Capital assets being depreciated:				
Buildings	29,730,601	-	-	29,730,601
Equipment and vehicles	2,985,524	341,549	-	3,327,073
Infrastructure, road network	23,551,912	1,109,381	-	24,661,293
Total capital assets being depreciated	<u>56,268,037</u>	<u>1,450,930</u>	<u>-</u>	<u>57,718,967</u>
Less accumulated depreciation for:				
Buildings	10,739,050	807,477	-	11,546,527
Equipment and vehicles	1,615,531	328,417	-	1,943,948
Infrastructure, road network	11,539,368	906,166	-	12,445,534
Total accumulated depreciation	<u>23,893,949</u>	<u>2,042,060</u>	<u>-</u>	<u>25,936,009</u>
Total capital assets being depreciated, net	<u>32,374,088</u>	<u>(591,130)</u>	<u>-</u>	<u>31,782,958</u>
Business-type activities capital assets, net	<u>\$34,139,666</u>	<u>\$ 633,583</u>	<u>\$1,109,381</u>	<u>\$33,663,868</u>

Depreciation expense was charged by the City as follows for the year ended June 30, 2012:

Governmental activities:

Public safety	\$ 171,379
Public works	602,080
Culture and recreation	518,378
General government	77,951
Total depreciation expense-governmental activities	<u>\$ 1,369,788</u>

Governmental activities:

Water	\$ 706,737
Wastewater	475,922
Storm water	65,017
King's Pointe	794,384
Total depreciation expense-business type activities	<u>\$ 2,042,060</u>

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

5. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 21,070
	Special Levy	85,150
	Enterprise:	
	Water	39,448
	Sewer	38,435
		<u>184,103</u>
Debt Service	General	145,033
	Special Revenue:	
	Local Option Sales Tax	414,980
	Tax increment financing	296,904
	Enterprise:	
	King's Pointe	755,016
		<u>1,611,933</u>
Capital Projects	General	275,362
	Special Revenue:	
	Road Use Tax	252,475
	Tax increment financing	394,260
	Local Option Sales Tax	571,898
	Enterprise:	
	King's Pointe	157,500
	Sanitation	3,000
		<u>1,654,495</u>
Special Revenue:		
Local Option Sales Tax	General	<u>14,996</u>
Special Levy	Proprietary:	
	Internal Service Fund	<u>100,000</u>
Tax increment financing	Special Revenue:	
	Road Use Tax	17,877
	Enterprise:	
	Water	16,180
		<u>34,057</u>

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

5. Interfund Transfers- (Continued)

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Enterprise: Water	Debt Service	\$ 1,272,160
	Enterprise: Water	<u>668,767</u>
		<u>1,940,927</u>
King's Pointe	General	20,000
	Special Revenue:	
	Tax increment financing	254,590
	Enterprise: Water	<u>500,000</u>
		<u>774,590</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

6. Long-term Liabilities

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2012:

	<u>Balance, Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance, End of Year</u>	<u>Due Within One Year</u>
Governmental Activities:					
General obligation bonds/notes	\$20,460,000	\$6,525,000	\$755,000	\$26,230,000	\$1,268,000
Compensated absences	285,975	682	-	286,657	286,657
Net OPEB liability	<u>27,200</u>	<u>13,231</u>	<u>-</u>	<u>40,431</u>	<u>-</u>
Totals	<u>\$20,773,175</u>	<u>\$6,538,913</u>	<u>\$755,000</u>	<u>\$26,557,088</u>	<u>\$1,554,657</u>
Business-Type Activities:					
Note payable - bank	\$ -	\$500,000	\$ -	\$500,000	\$500,000
Revenue bonds	7,433,000	880,000	401,000	7,912,000	443,000
Compensated absences	<u>79,000</u>	<u>13,700</u>	<u>-</u>	<u>92,700</u>	<u>92,700</u>
Totals	<u>\$7,512,000</u>	<u>\$1,393,700</u>	<u>\$401,000</u>	<u>\$8,504,700</u>	<u>\$1,035,700</u>

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

6. Long-term Liabilities - (Continued)

Annual debt service requirements to maturity for general obligation bonds/notes and revenue bonds at June 30, 2012 are as follows:

Year Ending	<u>Governmental Activities</u>		<u>Business-Type Activities</u>			
	General Obligation					
	<u>Bonds/Notes</u>		<u>Revenue Bonds/Notes</u>		<u>Total</u>	
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 825,000	\$ 1,134,237	\$ 443,000	\$ 239,795	\$ 1,268,000	\$ 1,374,032
2014	825,000	1,099,435	455,000	226,435	1,280,000	1,325,870
2015	875,000	1,063,653	1,368,000	203,715	2,243,000	1,267,368
2016	1,315,000	1,026,193	491,000	180,605	1,806,000	1,206,798
2017	1,390,000	980,950	505,000	165,735	1,895,000	1,146,685
2018-2022	8,225,000	4,058,061	2,755,000	588,188	10,980,000	4,646,249
2023-2027	11,025,000	2,004,351	1,645,000	181,968	12,670,000	2,186,319
2028-2032	<u>1,750,000</u>	<u>220,045</u>	<u>250,000</u>	<u>31,638</u>	<u>2,000,000</u>	<u>251,683</u>
Totals	<u>\$26,230,000</u>	<u>\$11,586,925</u>	<u>\$ 7,912,000</u>	<u>\$ 1,818,079</u>	<u>\$34,142,000</u>	<u>\$ 13,405,004</u>

General Obligation Bonds/Notes

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as serial bonds with substantially equal amounts of principal plus interest maturing each year. General obligation bond debt service related to the \$5,400,000 bond issue in 2006 and the \$2,700,000 bond issue in 2011 are subject to annual appropriation by the City Council. In accordance with the Code of Iowa, only that portion subject to the annual appropriation by the City Council is included in the computation of the statutory debt limit.

Details of general obligation bonds/notes payable at June 30, 2012 are as follows:

	<u>Year of</u>	<u>Interest</u>	<u>Amount</u>	<u>Year of</u>	<u>Annual Principal</u>	<u>Outstanding</u>
	<u>Issue</u>	<u>Rates</u>	<u>Originally</u>	<u>Maturity</u>	<u>Payments</u>	<u>Balance</u>
Essential corporate purpose	2005	3.75% - 4.25%	\$5,600,000	2025	\$185,000 - \$435,000	\$ 4,420,000
Urban renewal	2006	5.25% - 5.70%	6,000,000	2025	130,000 - 390,000 <sup>1</sup>	5,710,000
Urban renewal	2006	4.00% - 4.75%	5,400,000	2026	205,000 - 385,000	4,190,000
Urban renewal	2007	5.45% - 5.65%	2,945,000	2027	5,000 - 100,000 <sup>2</sup>	2,945,000
Capital loan notes	2008	4.25% - 4.50%	325,000	2013	55,000 - 75,000	75,000
Capital loan notes	2010	2.00% - 6.10%	2,500,000	2029	40,000 - 200,000	2,365,000
Urban renewal	2011	2.00% - 4.20%	2,700,000	2031	110,000 - 185,000 <sup>3</sup>	2,700,000
Urban renewal	2012	1.00% - 2.20%	3,825,000	2025	350,000 - 425,000	3,825,000
Total						<u>\$26,230,000</u>

<sup>1</sup> One additional \$2,330,000 payment in 2025.

<sup>2</sup> Payments begin in 2013. Additional annual payments of \$945,000 and \$1,125,000 in 2026 and 2027, respectively.

<sup>3</sup> One additional \$830,000 payment in 2031.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

6. Long-term Liabilities - (Continued)

General Obligation Advanced Refunding Notes

In February 2012 the City issued \$3,825,000 of general obligation refunding notes to advance refund the 2005 general obligation bonds under a crossover refunding arrangement. The proceeds of the 2012 refunding notes were placed in an irrevocable trust fund to provide for the future debt service of the 2005 notes. Interest on the 2012 refunding notes will be paid from the escrow account through June 1, 2015, on which date the 2005 notes will be called for redemption and also paid from the escrow account. As a result of the advance refunding, the City achieved a debt service savings of \$206,045. The escrow account assets and the liability for the notes are included in the City's financial statements until defeasance occurs.

Revenue Bonds/Notes

The City issues bonds/notes where the government pledges income derived from the required or constructed assets to pay debt service. Details of revenue bonds/notes payable at June 30, 2012 are as follows:

	Year of <u>Issue</u>	Interest <u>Rates</u>	Amount Originally <u>Issued</u>	Year of <u>Maturity</u>	Annual Principal <u>Payments</u>	Outstanding <u>Balance</u>
Water revenue	2003	3.00%	\$7,500,000	2024	\$324,000 - \$490,000	\$ 5,018,000
Storm water revenue	2006	3.00%	729,000	2027	29,000 - 48,000	584,000
Wastewater revenue	2007	3.00%	660,000	2027	25,000 - 44,000	530,000
Wastewater revenue	2010	3.00%	900,000	2014	None <sup>4</sup>	900,000
Water capital loan note	2011	4.40% - 5.00%	200,000	2031	5,000 - 15,000	200,000
Sewer capital loan note	2011	3.00% - 5.00%	680,000	2031	25,000 - 50,000	680,000
Total						<u>\$ 7,912,000</u>

<sup>4</sup> One \$900,000 payment on December 1, 2014.

The City has pledged future water customer revenues, net of specified operating expenses, to repay \$7,500,000 and \$200,000 in water revenue notes issued in August 2003 and August 2011 respectively. Proceeds from the notes provided financing for the construction of improvements to the water system. The notes are payable solely from water customer net revenues and are payable through 2031. Annual principal and interest payments on the notes are expected to require less than 60 percent of net revenues. The total principal and interest remaining to be paid on the note is \$6,358,930. For the current year, principal and interest paid and total customer net revenues (operating revenues plus depreciation expense) were \$511,588 and \$1,543,349 respectively.

The City has pledged future wastewater customer receipts, net of specified operating disbursements, to repay \$660,000, \$900,000, and \$680,000 in wastewater revenue notes issued in April 2007, June 2010, and August 2011 respectively. Proceeds from the notes provided financing for the construction of improvements to the wastewater treatment plant. The notes are payable solely from wastewater customer net receipts and are payable through 2031. Annual principal and interest payments on the notes are expected to require less than 50 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$2,636,908. For the current year, principal and interest paid and total customer net receipts were \$85,481 and \$727,885 respectively.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

6. Long-term Liabilities - (Continued)

The City has pledged future storm water customer receipts, net of specified operating disbursements, to repay \$729,000 in storm water revenue notes issued in October 2006. Proceeds from the notes provided financing for the construction of improvements to the storm water system. The notes are payable solely from storm water customer net receipts and are payable through 2027. Annual principal and interest payments on the notes are expected to require less than 50 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$734,240. For the current year, principal and interest paid and total customer net receipts were \$49,450 and \$ 105,378 respectively.

The resolutions providing for the issuance of revenue notes include the following provisions:

- A. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to separate revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- C. The City is to establish user rates at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

7. Pension and Retirement Benefits

Municipal Fire and Police Retirement System

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, West Des Moines, Iowa 50266.

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, cannot be less than 17% of earnable compensation. Contribution rates are established by state statute. The City's contributions to the Plan for the years ended June 30, 2012, 2011, and 2010 were \$221,534, \$176,365, and \$152,137, respectively, which met the required minimum contribution requirement for each year.

Iowa Public Employees Retirement System

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

7. Pension and Retirement Benefits – (Continued)

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2012, 2011, 2010, were \$140,803, \$117,625, and \$116,227 respectively, equal to the required contributions for each year.

ICMA Retirement Plan

The Public Safety Director, City Administrator, and City Community Development Director are covered under the nationwide retirement plan offered by the International City Manager's Association (ICMA). Contributions required by the employer are 12% of the annual salary for the Public Safety Director, \$2,000 per year for the City Community Development Director, and an annual salary determined on a calendar year basis for the City Administrator - \$3,650 for calendar year 2011 and \$4,150 for calendar year 2012.

The City's responsibility is limited to payment of contributions required by established rates. The employer's contribution paid by the City for the year ended June 30, 2012 totaled \$19,567.

8. Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their eligible dependents. There are 51 active members and no retired members in the plan. Eligible retirees receive health care coverage through the same plans that are available for active employees. Participants must be age 55 or older at retirement. Benefits terminate upon attaining Medicare eligibility.

Contributions are required for both retiree and dependent coverage. The retiree contributions are based on and equal to the historical full cost of active members. Retiree expenses are then offset by retiree contributions.

The medical/prescription drug coverage is provided through a self-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation – The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.



CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

8. Other Postemployment Benefits (OPEB) – (Continued)

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	\$ 13,605
Interest on net OPEB obligation	1,224
Adjustment to annual required contribution	<u>(1,598)</u>
Annual OPEB cost	13,231
Contributions made	<u>-</u>
Increase in net OPEB obligation	13,231
Net OPEB obligation - beginning of year	<u>27,200</u>
Net OPEB obligation - end of year	<u>\$ 40,431</u>

For calculation of the net OPEB obligation, the actuary has set the transition date as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the City did not contribute to the retiree plan. No plan members are eligible for retiree benefits.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 13,600	0%	\$ 13,600
2011	\$ 13,600	0%	\$ 13,600
2012	\$ 13,231	0%	\$ 13,231

Funded Status and Funding Progress – As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was approximately \$85,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$85,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,067,000 and the ratio of the UAAL to covered payroll was 2.77%. As of June 30, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

8. Other Postemployment Benefits (OPEB) – (Continued)

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

*Retirement age for active employees* – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 60, or at the first subsequent year in which the member would qualify for benefits.

*Marital status* – Marital status of members at the calculation date was assumed to continue throughout retirement.

*Mortality* – Life expectancies were based on the 2004 United States Life Tables.

*Turnover* – Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

*Healthcare cost trend rate* – A rate of 10 percent initially, reduced to an ultimate rate of 5.0 percent after six years, was used for the expected rate of increase in healthcare insurance premiums.

*Health insurance premiums* – 2010 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

9. Commitments

The City has entered into construction contracts totaling approximately \$3,145,172 for street and water utility improvement projects. As of June 30, 2012, costs of approximately \$2,947,323 have been incurred on the projects. The remaining \$197,849 will be paid as work on the projects progresses.

The City has entered into an agreement for the operation and maintenance of the City's wastewater treatment facilities through June 2013, with the fee to be negotiated yearly. The fee for the year ending June 30, 2013 is \$83,534 per month.

The City has entered into an agreement for the operations and maintenance of the City's water and water treatment facilities through June 2013, with the fee to be negotiated yearly. The fee for the year ending June 30, 2013 is \$58,665.

The City has entered into an agreement for the management of the airport for the year ending June 30, 2012 for \$2,984 per month.

The City has entered into a Facility Management Agreement with Kinseth Hotel Corporation (Kinseth) to manage the King's Pointe Waterpark Resort through June 30, 2013, with annual one-year renewals thereafter. A base management fee will be paid at \$4,000 per month for five months of operation (July through September and May through June of the following calendar year).

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

9. Commitments – (Continued)

The City has also entered into a Management Agreement with Kinseth to manage the King's Pointe Resort through June 30, 2013, with annual renewals thereafter. A management fee will be paid at three percent of each month's gross revenues and twelve percent of the improvement in net available cash at each fiscal year end compared to the prior fiscal year end.

10. Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Effective August 1, 1983, the City adopted a plan of self-insurance for employee's health benefits. Deposits are made to the Employee Health Benefit Fund, an internal service fund of the City, to pay employee claims. An excess coverage insurance policy covers individual claims over \$20,000, or total group claims exceeding 125% of expected claims.

An actuarial study of the adequacy of reserves, rates, and financial condition of the Employee Health Benefit Fund was performed for the plan year January 1, 2011 to December 31, 2011. The study included census of covered members as of December 31, 2011, a summary of aggregate and specific excess loss reinsurance coverage, monthly claim expense information, a summary of revenue and expenses and review of the plan document summary description.

Following is a financial analysis of the plan for the year ended December 31, 2011. Included in this analysis is an estimate of the amount needed at the end of the plan year for incurred but not paid claims.

Net Assets - January 1, 2011	\$ 716,677
Contributions received	576,133
Interest earned	3,520
Other sources of revenue	<u>635</u>
	<u>1,296,965</u>
Claims paid	255,026
Aggregate stop-loss premiums and other charges	<u>239,356</u>
Transfer out	<u>494,382</u>
Net assets - December 31, 2011	802,583
Reserved for estimated incurred but unpaid claims	<u>38,254</u>
Unreserved Funds	<u>\$ 764,329</u>

11. Deferred Compensation

The City offers its employees deferred compensation plans as allowed by the Internal Revenue Code Section 457. City employees are allowed to defer a portion of the current salary until future years. The employee becomes eligible to withdraw funds upon termination, retirement, death, or unforeseeable emergency.

The City has adopted GASB Statement 32 and does not report the assets of the plans on its balance sheet.

CITY OF STORM LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

12. Conduit Debt Obligations

To provide for the construction of additions to the library, dormitories, and a recreation facility at Buena Vista University, the City has issued a series of Higher Education Facilities Revenue Bonds. In addition, the City issued Elderly Housing Revenue Bonds for the construction of dietary and maintenance facilities and an addition of a 38-unit independent living facility at Methodist Manor Retirement Community. These bonds are special limited obligations of the City, payable solely from and secured by a pledge of revenue to be received by the university and the care facility. The bonds do not constitute a debt or pledge of the faith and credit of the City and, accordingly, have not been reported in the accompanying financial statements.

A summary of conduit debt obligations is as follows:

	Originally Issued	Date of Issue	Balance Outstanding June 30, 2012
Higher Education Facilities Revenue Bonds	\$ 7,630,000	5/24/2000	\$ 4,085,000
Elderly Housing Revenue Bonds	4,565,000	6/1/2007	4,045,000

13. Litigation

The City is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. City officials believe the outcome of these matters will not have a material adverse effect on the City's financial statements.

14. Deficit Fund Balances

The Special Revenue – Tax Increment Financing fund had a deficit balance of \$330,348 at June 30, 2012. The deficit fund balance is a result of unpaid taxes in the TIF area and capital expenses in the new TIF area.

15. Subsequent Events

Subsequent to the year ended June 30, 2012, the City entered into various contracts for sanitary sewer and storm water system improvements totaling approximately \$14,300,000. These projects will be funded with Federal and State grants, revenue bonds, and funds on hand. The City also approved the issuance of General Obligation Bonds not to exceed \$480,000 for the purchase of a new fire truck. An issuance was also approved for Water Revenue Capital Loan Notes not to exceed \$2,340,000.

## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STORM LAKE  
BUDGETARY COMPARISON SCHEDULE OF  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES –  
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final To Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 3,310,289	\$ -	\$ 3,310,289	\$ 3,300,990	\$ 3,300,990	\$ 9,299
Tax increment financing	519,575	-	519,575	561,550	561,550	(41,975)
Other city tax	1,638,644	-	1,638,644	1,413,103	1,413,103	225,541
Intergovernmental	1,657,907	428,845	2,086,752	4,683,593	6,428,556	(4,341,804)
Licenses and permits	194,493	-	194,493	157,300	175,100	19,393
Use of money and property	1,331,087	32,564	1,363,651	76,040	76,040	1,287,611
Charges for service	137,532	10,307,827	10,445,359	11,328,732	12,096,760	(1,651,401)
Miscellaneous	890,985	122,063	1,013,048	278,200	383,556	629,492
Total receipts	9,680,512	10,891,299	20,571,811	21,799,508	24,435,655	(3,863,844)
Disbursements:						
Public safety	2,306,694	-	2,306,694	2,553,978	2,614,978	308,284
Public works	1,273,382	-	1,273,382	1,068,060	1,350,550	77,168
Health and social services	4,276	-	4,276	5,500	5,500	1,224
Culture and recreation	1,490,684	-	1,490,684	1,537,248	1,627,604	136,920
Community and economic development	566,799	-	566,799	541,103	592,343	25,544
General government	417,890	-	417,890	389,760	434,345	16,455
Debt service	1,921,072	-	1,921,072	1,759,618	1,847,488	(73,584)
Capital projects	4,604,994	-	4,604,994	2,917,756	5,632,069	1,027,075
Business type activities	-	10,053,704	10,053,704	11,515,634	11,763,634	1,709,930
Total disbursements	12,585,791	10,053,704	22,639,495	22,288,657	25,868,511	3,229,016
Excess (deficiency) of receipts over disbursements	(2,905,279)	837,595	(2,067,684)	(489,149)	(1,432,856)	(634,828)
Other financing sources, net	2,008,575	1,501,378	3,509,953	1,757,000	4,198,047	(688,094)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(896,704)	2,338,973	1,442,269	1,267,851	2,765,191	(1,322,922)
Balance, beginning of year	3,269,675	5,536,564	8,806,239	10,270,592	10,270,592	(1,464,353)
Balance, end of year	\$ 2,372,971	\$ 7,875,537	\$ 10,248,508	\$ 11,538,443	\$ 13,035,783	\$ (2,787,275)

See accompanying independent auditor's report.

CITY OF STORM LAKE  
BUDGET TO GAAP RECONCILIATION  
YEAR ENDED JUNE 30, 2012

	<u>Governmental Funds</u>		
	<u>Cash</u> <u>Basis</u>	<u>Accrual</u> <u>Adjustments</u>	<u>Modified</u> <u>Accrual</u> <u>Basis</u>
Revenues	\$ 9,680,512	\$ 1,751,449	\$ 11,431,961
Expenditures	<u>12,585,791</u>	<u>486,752</u>	<u>13,072,543</u>
Net	(2,905,279)	1,264,697	(1,640,582)
Other financing sources, net	2,008,575	3,793,548	5,802,123
Beginning fund balances	<u>3,269,675</u>	<u>206,227</u>	<u>3,475,902</u>
Ending fund balances	<u>\$ 2,372,971</u>	<u>\$ 5,264,472</u>	<u>\$ 7,637,443</u>

	<u>Proprietary Funds</u>		
	<u>Cash</u> <u>Basis</u>	<u>Accrual</u> <u>Adjustments</u>	<u>Accrual</u> <u>Basis</u>
Revenues	\$ 10,891,299	\$ (499,342)	\$ 10,391,957
Expenditures	<u>10,053,704</u>	<u>(73,045)</u>	<u>9,980,659</u>
Net	837,595	(426,297)	411,298
Other financing sources, net	1,501,378	(964,207)	537,171
Beginning net assets	<u>5,536,564</u>	<u>27,009,852</u>	<u>32,546,416</u>
Ending net assets	<u>\$ 7,875,537</u>	<u>\$ 25,619,348</u>	<u>\$ 33,494,885</u>

See accompanying independent auditor's report.

CITY OF STORM LAKE  
NOTES TO REQUIRED SUPPLEMENTARY  
INFORMATION - BUDGETARY REPORTING  
JUNE 30, 2012

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year ended June 30, 2012 the budget was amended once which increased budgeted disbursements by \$3,579,854. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the debt service function.



CITY OF STORM LAKE  
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	-	\$ 85,000	\$ 85,000	0.00%	\$2,250,000	3.80%
2011	July 1, 2009	-	\$ 85,000	\$ 85,000	0.00%	\$2,863,000	3.00%
2012	July 1, 2009	-	\$ 85,000	\$ 85,000	0.00%	\$3,067,000	2.77%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

## SUPPLEMENTARY INFORMATION

CITY OF STORM LAKE  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2012

Schedule 1

ASSETS	Special Revenue					Permanent	Total
	Tort Insurance	Crime Prevention	Library	Expendable Gift	Law Enforcement	Emma Meyers Trust	
Cash and cash equivalents	\$ 264,235	\$ 21,071	\$ 83,023	\$ 7,317	\$ 161,257	\$ 2,714	\$ 539,617
Receivables							
Property tax:							
Delinquent	1,577	-	-	-	-	-	1,577
Succeeding year	67,726	-	-	-	-	-	67,726
Accrued Interest	-	-	4	-	-	-	4
Prepaid expenses	59,540	-	-	-	-	-	59,540
Total assets	<u>\$ 393,078</u>	<u>\$ 21,071</u>	<u>\$ 83,027</u>	<u>\$ 7,317</u>	<u>\$ 161,257</u>	<u>\$ 2,714</u>	<u>\$ 668,464</u>
 <u>LIABILITIES AND FUND BALANCES</u>							
Liabilities:							
Deferred revenue:							
Succeeding year property tax	\$ 67,726	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 67,726
Other	1,577	-	-	-	-	-	1,577
Total liabilities	<u>69,303</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,303</u>
Fund balances:							
Nonspendable:							
Prepaid expenses	59,540	-	-	-	-	-	59,540
Permanent	-	-	-	-	-	2,714	2,714
Restricted	<u>264,235</u>	<u>21,071</u>	<u>83,027</u>	<u>7,317</u>	<u>161,257</u>	<u>-</u>	<u>536,907</u>
Total fund balances	<u>323,775</u>	<u>21,071</u>	<u>83,027</u>	<u>7,317</u>	<u>161,257</u>	<u>2,714</u>	<u>599,161</u>
Total liabilities and fund balances	<u>\$ 393,078</u>	<u>\$ 21,071</u>	<u>\$ 83,027</u>	<u>\$ 7,317</u>	<u>\$ 161,257</u>	<u>\$ 2,714</u>	<u>\$ 668,464</u>

See accompanying independent auditor's report.

CITY OF STORM LAKE  
 COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012

Schedule 2

	Special Revenue					Permanent	
	Tort Insurance	Crime Prevention	Library	Expendable Gift	Law Enforcement	Emma Meyers Trust	Total
Revenues:							
Property tax	\$ 67,234	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 67,234
Other city tax	3,000	-	-	-	-	-	3,000
Intergovernmental	-	-	5,155	-	-	-	5,155
Charges for services	34,959	-	-	-	20,352	-	55,311
Use of money and property	1,080	74	406	-	117	-	1,677
Miscellaneous	-	20,000	10,814	1,314	17,954	-	50,082
Total revenues	<u>106,273</u>	<u>20,074</u>	<u>16,375</u>	<u>1,314</u>	<u>38,423</u>	<u>-</u>	<u>182,459</u>
Expenditures:							
Operating:							
Public Safety	-	20,998	-	-	72,930	-	93,928
Culture and recreation	-	-	52,587	-	-	-	52,587
General government	<u>110,122</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>110,122</u>
Total expenditures	<u>110,122</u>	<u>20,998</u>	<u>52,587</u>	<u>-</u>	<u>72,930</u>	<u>-</u>	<u>256,637</u>
Net change in fund balances	(3,849)	(924)	(36,212)	1,314	(34,507)	-	(74,178)
Fund balances beginning of year	<u>327,624</u>	<u>21,995</u>	<u>119,239</u>	<u>6,003</u>	<u>195,764</u>	<u>2,714</u>	<u>673,339</u>
Fund balances end of year	<u>\$ 323,775</u>	<u>\$ 21,071</u>	<u>\$ 83,027</u>	<u>\$ 7,317</u>	<u>\$ 161,257</u>	<u>\$ 2,714</u>	<u>\$ 599,161</u>

See accompanying independent auditor's report.

CITY OF STORM LAKE  
SCHEDULE OF AND CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

Lake Improvements Commission				
	Balance			Balance
	June 30, 2011	Additions	Deletions	June 30, 2012
Assets				
Cash and cash equivalents	\$ 1,982,737	\$ 1,622,710	\$ 1,862,832	\$ 1,742,615
Interest receivable	-	10,473	9,881	592
Due from other governments	165,590	83,353	165,590	83,353
Prepaid Expenses	-	17,397	-	17,397
Total assets	<u>\$ 2,148,327</u>	<u>\$ 1,733,933</u>	<u>\$ 2,038,303</u>	<u>\$ 1,843,957</u>
Liabilities:				
Accounts payable	\$ 25,608	\$ 19,406	\$ 25,608	\$ 19,406
Due to other governments	2,122,719	1,714,527	2,012,695	1,824,551
Total liabilities	<u>\$ 2,148,327</u>	<u>\$ 1,733,933</u>	<u>\$ 2,038,303</u>	<u>\$ 1,843,957</u>

Drainage				
	Balance			Balance
	June 30, 2011	Additions	Deletions	June 30, 2012
Assets				
Cash and cash equivalents	\$ (109,676)	\$ 100,000	\$ 134,636	\$ (144,312)
Due from other governments	111,947	134,636	102,271	144,312
Total assets	<u>\$ 2,271</u>	<u>\$ 234,636</u>	<u>\$ 236,907</u>	<u>\$ -</u>
Liabilities:				
Accounts payable	2,271	234,636	236,907	-
Total liabilities	<u>\$ 2,271</u>	<u>234,636</u>	<u>\$ 236,907</u>	<u>\$ -</u>

Gingerbread House				
	Balance			Balance
	June 30, 2011	Additions	Deletions	June 30, 2012
Assets				
Cash and cash equivalents	\$ -	\$ 239,529	\$ 225,166	\$ 14,363
Total assets	<u>\$ -</u>	<u>\$ 239,529</u>	<u>\$ 225,166</u>	<u>\$ 14,363</u>
Liabilities:				
Accounts payable	\$ -	\$ 239,529	\$ 225,166	\$ 14,363
Total liabilities	<u>\$ -</u>	<u>\$ 239,529</u>	<u>\$ 225,166</u>	<u>\$ 14,363</u>

See accompanying independent auditor's report.

CITY OF STORM LAKE  
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION –  
ALL GOVERNMENTAL FUNDS  
FOR THE LAST TEN YEARS

Schedule 4

	Modified Accrual Basis									
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues:										
Property tax	\$ 3,260,585	\$ 3,228,638	\$ 2,927,869	\$ 2,827,598	\$ 2,799,837	\$ 2,669,623	\$ 2,625,565	\$ 2,369,578	\$ 2,201,582	\$ 2,143,224
Tax increment financing	516,655	510,733	542,506	281,009	129,377	83,873	84,850	36,460	33,264	31,544
Other city tax	1,812,822	1,496,467	1,199,479	1,337,504	1,209,525	1,352,178	1,132,590	1,076,883	1,113,416	961,224
Intergovernmental	3,249,872	2,338,053	1,260,382	163,747	256,198	182,624	109,485	100,288	142,724	97,694
Licenses and permits	217,743	199,614	177,904	340,468	383,606	759,810	693,381	298,777	445,652	184,277
Charges for service	1,206,912	1,342,382	1,171,084	2,502,482	1,070,861	2,563,765	1,535,489	2,059,008	1,476,894	1,291,763
Use of money and property	152,469	65,105	271,658	1,171,521	1,150,540	487,579	430,791	472,177	464,140	372,442
Special assessments	-	-	-	-	-	-	-	1,343	50,142	21,963
Miscellaneous	1,014,903	369,543	472,114	663,245	443,993	628,511	866,338	563,315	130,143	328,504
Total	<u>\$11,431,961</u>	<u>\$ 9,550,535</u>	<u>\$ 8,022,996</u>	<u>\$ 9,287,574</u>	<u>\$ 7,443,937</u>	<u>\$ 8,727,963</u>	<u>\$ 7,478,489</u>	<u>\$ 6,977,829</u>	<u>\$ 6,057,957</u>	<u>\$ 5,432,635</u>
Expenditures:										
Operating:										
Public safety	\$ 2,356,275	\$ 2,301,118	\$ 2,130,274	\$ 2,092,319	\$ 1,996,699	\$ 1,731,813	\$ 1,747,843	\$ 1,741,482	\$ 1,640,085	\$ 1,720,395
Public works	1,284,121	1,237,937	1,043,094	1,029,727	1,007,552	871,683	921,209	947,440	819,776	812,980
Health and social services	4,276	5,464	5,984	9,796	14,221	12,850	10,700	9,034	15,700	15,700
Culture and recreation	1,466,694	1,594,837	1,482,908	1,444,437	1,494,431	715,125	837,193	829,871	837,515	826,506
Community and economic development	572,487	463,340	622,267	1,904,128	348,970	351,232	336,781	365,144	408,725	330,421
General government	401,761	338,549	366,308	386,912	338,702	287,970	273,172	278,934	268,705	242,472
Debt service	1,942,588	1,764,129	1,376,234	1,342,923	1,293,896	1,207,354	570,555	361,282	456,073	355,951
Capital projects	5,044,341	2,685,676	1,797,161	1,409,263	2,819,570	7,596,287	3,807,559	2,150,456	1,676,848	1,662,726
Total	<u>\$13,072,543</u>	<u>\$10,391,050</u>	<u>\$ 8,824,230</u>	<u>\$ 9,619,505</u>	<u>\$ 9,314,041</u>	<u>\$12,774,314</u>	<u>\$ 8,505,012</u>	<u>\$ 6,683,643</u>	<u>\$ 6,123,427</u>	<u>\$ 5,967,151</u>

See accompanying independent auditor's report.

CITY OF STORM LAKE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2012

Schedule 5

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Agency Pass-Through Number</u>	<u>Program Expenditures</u>
Direct:			
U.S. Department of Transportation:			
Federal Aviation Administration			
Airport Improvement Program	20.106	3-19-0088-007-2012	\$ 600,000
Airport Improvement Program	20.106	3-19-0088-008-2012	<u>944,349</u>
			<u>1,544,349</u>
U.S. Department of Housing and Urban Development:			
Office of Community Planning and Development			
Economic Development Initiative – Special Project			
Neighborhood Initiative and Miscellaneous Grants	14.251	B-05-SP-IA-0074	<u>225,030</u>
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-U-7422(612)--70-11	310,000
Highway Planning and Construction	20.205	STP-U-7422(611)--70-11	5,395
Highway Planning and Construction	20.205	STP-U-7422(613)--70-11	<u>24,316</u>
			<u>339,711</u>
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's			
Program and Non-Entitlement Grants in Hawaii	14.228	10-HSG-071	<u>108,673</u>
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency			
Management Division:			
Hazard Mitigation Grant	97.039	HMGP-DR-1763-0165-01	<u>214,453</u>
Total			<u>\$ 2,432,216</u>

See accompanying independent auditor's report.

CITY OF STORM LAKE  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2012

(1) Basis of Presentation

The accompanying schedule of expenditures of the federal awards includes the federal grant activity of City of Storm Lake, Iowa for the year ended June 30, 2012. All federal financial assistance passed through other government agencies expended during the year is included in the schedule. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*.

(2) Significant Accounting Policies

Revenue from federal awards is recognized when the City has done everything necessary to establish its right to revenue. For government funds, revenue from federal grant is recognized when they become both measurable and available. Expenditures allowable in accordance with the grant agreement are recognized when they become a demand on current available financial resources.



# HUNZELMAN, PUTZIER & CO., PLC

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## Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council  
Storm Lake, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Storm Lake, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated May 16, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

The management of the City of Storm Lake is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings to be a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Storm Lake, and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be, and should not be, used by anyone other than these specified parties.

*Hungelman, Putzies & Co., PLLC*

May 16, 2013

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.  
JASON K. RAVELING  
TAMMY M. CARLSON, C.P.A.  
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Independent Auditor's Report on Compliance  
with Requirements That Could Have a Direct and Material Effect  
on Each Major Program and on Internal Control over Compliance in Accordance  
with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council  
City of Storm Lake  
Storm Lake, Iowa 50588

Compliance

We have audited City of Storm Lake, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. City of Storm Lake, Iowa's major federal programs are identified in Part I of the accompanying *Schedule of Findings*. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs is the responsibility of City of Storm Lake, Iowa's management. Our responsibility is to express an opinion on City of Storm Lake, Iowa's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Storm Lake, Iowa's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Storm Lake, Iowa's compliance with those requirements.

In our opinion, City of Storm Lake, Iowa complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of City of Storm Lake, Iowa is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered City of Storm Lake, Iowa's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Storm Lake, Iowa's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purposed described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Storm Lake and other parties to whom City of Storm Lake may report, including federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Hunnegelman, Putzies + Co., PLLC*

May 16, 2013

CITY OF STORM LAKE  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were as follows:
  - CFDA Number 20.205 Highway Planning and Construction
  - CFDA Number 20.106 Airport Improvement Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Storm Lake did not qualify as a low-risk auditee.

CITY OF STORM LAKE  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- II-A-12 Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response – The City will consider obtaining additional knowledge where cost effective but will continue to rely on its audit firm for assistance with drafting the financial statements and disclosures.

Conclusion – Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were noted

Part III: Other Findings Related to Required Statutory Reporting:

- III-A-12 Certified Budget - Disbursements during the year ended June 30, 2012, exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states in part that public moneys may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended to ensure all expenses are captured in the future, when applicable.

Conclusion – Response accepted.

- III-B-12 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- III-C-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF STORM LAKE  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

Part III: Other Findings Related to Required Statutory Reporting: (Continued)

- III-D-12 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- III-E-12 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-F-12 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- III-G-12 Revenue Notes – No instances of non-compliance with the revenue note resolutions were noted.
- III-H-12 Financial Condition – The Special Revenue Fund – Tax Increment Financing had a deficit balances of \$330,348 as of June 30, 2012.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial condition.

Response – The City will continue to look at ways to make sure the expenses and revenues are received in the same fiscal year in order to avoid deficits in fund balance. Sometimes it is beyond our control but every effort will be made to have positive fund balances at the end of the fiscal year.

Conclusion – Response accepted.